

CURRENT HOUSING PROBLEMS AND POSSIBLE FEDERAL RESPONSES

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NOTES

Unless otherwise indicated, all years referred to in this report are fiscal years.

Details in the text and tables of this report may not add to totals because of rounding.

PREFACE

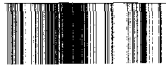
Each year, choices are made by the Congress concerning the funding of housing aid. In response to a request from the Subcommittee on Housing and Community Development of the House Committee on Banking, Finance and Urban Affairs, this study examines the housing conditions of lower-income households, describes the nature and amount of federal housing assistance that is currently available to aid these households, and presents a broad range of options for addressing recurring questions about federal housing aid. In accordance with the Congressional Budget Office's (CBO's) mandate to provide objective and impartial analysis, this paper contains no recommendations.

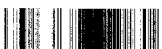
Carla Pedone of CBO's Human Resources and Community Development Division prepared the paper under the supervision of Nancy M. Gordon and Martin D. Levine. Tahirih Senne and Theresa Dailey provided computer assistance, Wilhelmina A. Leigh developed some of the trend data in Chapter III, and Brent Shipp supplied some of the cost estimates in Chapter V. Many people at CBO reviewed earlier drafts of the report, including Edward M. Gramlich, Larry Ozanne, Rudolph Penner, Bruce Vavrichek, and Roberton C. Williams. Valuable comments were also received from Ken Beirne, Paul Burke, Anthony Downs, Robert Gray, Jill Khadduri, Duane T. McGough, Joseph Riley, Ann B. Schnare, Morton Schussheim, and John Weicher.

Sherry Snyder edited the manuscript, with the assistance of Nancy H. Brooks. Jill Bury helped prepare early drafts of the manuscript, and Kathryn Quattrone prepared the paper for publication.

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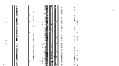
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SUMMARY

For half a century, through a variety of programs, the federal government has attempted to improve housing conditions and reduce housing costs for an increasing number of lower-income households. In 1987, over 5 million households were aided, at a cost of more than \$15 billion. Housing assistance is restricted to households that meet certain eligibility requirements, but it is not provided as an entitlement. Thus, recurring choices must be made by the Congress regarding what form the assistance should take, the types and number of households to serve, and how large a subsidy to provide.

HOUSING CONDITIONS OF ELIGIBLE HOUSEHOLDS

The predominant housing problem facing households that are eligible for assistance is the high cost of housing, although some of these households also live in substandard or crowded dwellings (see Summary Table 1). In 1985, four-fifths of all very-low-income renters, the primary target group of housing assistance programs, and over two-fifths of all low-income renters, a group that is also eligible for assistance, spent more than 30 percent of their income on housing costs. Affordability was the only problem for more than 60 percent of all very-low-income renters, but about one-fifth of them also lived in substandard or crowded quarters. Another 5 percent occupied physically inadequate living quarters without paying a large share of their income for housing. In all, only 16 percent of very-low-income and 44 percent of low-income renters experienced none of these problems.

The incidence of housing problems varies substantially among different groups of households in the target population. In 1985, elderly renters with no children present were less likely to experience housing problems than were families with children or nonelderly renters without children. While affordability was the overwhelming problem among all groups, almost half of all very-low-income renters with three or more children present lived in dwellings that were physically

SUMMARY TABLE 1. HOUSING CONDITIONS OF RENTERS ELIGIBLE FOR HOUSING ASSISTANCE, BY INCOME AND HOUSEHOLD TYPE, 1985

	Elderly, No Children ^a	Nonelderly, No Children ^b	Households With 1 or 2 Children	Households With 3 or More Children	All
Very-Low-Income Renters (As percentage of households in demographic category)					
No Problems	24	11	13	13	16
Costly Only ^c	65	68	60	37	61
Costly Plus Substandard or Crowded ^{c, d}	8	17	23	37	19
Substandard or Crowded Only ^d	3	4	4	12	5
Total	100	100	100	100	100
Very-Low-Income Renters (Thousands of households)					
Total	3,130	3,170	3,270	1,520	11,090

SOURCE: Congressional Budget Office tabulations from the 1985 American Housing Survey conducted by the Bureau of the Census for the Department of Housing and Urban Development.

NOTE: Excludes renters that paid no cash rent and households for which housing cost-to-income ratios are not computed because their housing costs are not available or because their income is zero or negative. The proportions of households with various housing conditions are calculated as a percentage of households for which these ratios are computed.

The income classification corresponds roughly to the definition used in federal housing assistance programs. A four-person household is classified as very-low-income if its family income is less than or equal to 50 percent of the area's median, and as low-income if its family income ranges from 51 percent to 80 percent of the area's median. Threshold incomes are adjusted for family size.

- a. An elderly household is one headed by a person age 62 or older.
- b. Nonelderly households without children present that meet the income criteria of federal housing programs are subject to further restrictions in determining their eligibility for rental assistance. In general, eligibility is restricted to families (that is, to groups of at least two individuals related by

(Continued)

SUMMARY TABLE 1. Continued

	Elderly, No Children ^a	Nonelderly, No Children ^b	Households With 1 or 2 Children	Households With 3 or More Children	All
Low-Income Renters (As percentage of households in demographic category)					
No Problems	43	47	44	29	44
Costly Only ^c	48	37	32	22	36
Costly Plus Substandard or Crowded ^{c, d}	3	6	7	12	7
Substandard or Crowded Only ^d	6	10	17	36	14
Total	100	100	100	100	100
Low-Income Renters (Thousands of households)					
Total	900	2,600	2,100	550	6,140

b. Continued

blood or marriage), to households with handicapped or disabled persons, to persons displaced by government action or federally recognized disaster, or to the remaining member of a tenant family. Assistance to other single persons may only be provided subject to certain stringent limitations.

- c. Housing costs for renters include tenant payments due to the landlord, utility costs not included in the rent payment, and renters' insurance. Costly is defined here as housing costs exceeding 30 percent of a household's income, the proportion paid by most households receiving federal housing subsidies.

- d. Substandard units are defined here as those lacking complete plumbing or kitchen facilities, or with two or more of 11 different structural defects. This standard was developed by CBO and produces estimates comparable to those based on indices developed by HUD. Crowded units are defined here as those with more than two persons per bedroom. This definition approximately corresponds to the standard used in federal housing assistance programs.

inadequate (mostly because of lack of space rather than unsound conditions), whereas only 11 percent of very-low-income elderly renters lived in such quarters.

Among very-low- and low-income households (referred to here collectively as lower-income households), the incidence of housing problems is substantially lower among homeowners than renters. In 1985, 38 percent of very-low-income homeowners and 72 percent of low-income homeowners experienced no problems at all. The incidence patterns of housing problems among owners with various demographic and income characteristics, however, generally resembled those among renters with similar characteristics.

FEDERAL HOUSING ASSISTANCE

The federal government addresses housing needs of lower-income households through a variety of direct spending programs administered by the Department of Housing and Urban Development (HUD) and the Farmers Home Administration (FmHA). Both rental and homeownership subsidies are provided. Each year, the Congress appropriates funds to pay for new assistance commitments that run generally from 5 years to 50 years. These commitments add to the number of households already receiving aid from previous appropriations, but they also raise federal outlays for the term of the commitments. The number of new commitments funded each year has decreased over the past 12 years. In particular, the number of net new rental assistance commitments fell from more than 375,000 in 1977 to fewer than 108,000 in 1988, thus slowing the growth in the total pool of available aid.

Types of Housing Assistance

Most programs aid lower-income renters. This assistance is provided through two basic approaches: project-based subsidies (such as the public housing and the Section 8 new construction programs), which are typically tied to projects specifically constructed for lower-income households, and household-based subsidies (such as the Section 8 existing-housing and housing voucher programs), which permit

households to choose standard units in the existing private housing stock. Subsidies generally reduce households' housing costs to a fixed percentage--currently 30 percent--of their income after certain deductions, and households are required to live either in units specifically built for them or in units that meet federal quality standards and with rents that do not exceed federal guidelines. Under the voucher program, however, households are allowed to live in units that rent for more than the federal standards, in which case they have to pay more than 30 percent of their income.

At the end of fiscal year 1987, 4.3 million households actually received rental assistance, while another 0.4 million rental commitments remained in the processing pipeline. Thus, a total of almost 4.7 million renters can be assisted from funds appropriated through 1988 (see Summary Table 2). In recent years, relatively few new commitments have been funded under the new construction programs. For example, of the estimated total of 114,000 additional rental commitments funded by 1988 appropriations, only 32 percent is for new construction, mostly for the elderly and handicapped. Nevertheless, because of the predominance of new construction assistance in the earlier years, more than three-quarters of all assisted households will receive aid through project-based subsidies, once construction of all projects in the processing pipeline is finished.

In addition to providing rental assistance to households predominantly classified as very-low-income, the federal government aids some households with slightly higher income in becoming homeowners by reducing their mortgage interest for a certain period--generally up to 33 years. In fiscal year 1988, an estimated 27,000 additional households received this form of assistance through the Section 502 program administered by the FmHA. Because of attrition among program participants, the total number of households receiving this type of aid has remained fairly constant over time, at around 1 million--about one-fifth of all households receiving housing subsidies at the end of 1987.

Federal costs per household vary across housing assistance programs. In 1987, the estimated cost of assisting the average renter participating in the Section 8 existing-housing certificate and voucher programs was about \$4,200, including fees paid to administering agencies. Comparable figures for assisting a household through the

new construction programs are difficult to derive, because of the myriad and timing of assistance mechanisms--including tax advantages--involved in these programs. Past studies suggest, however, that the per household cost of these programs could be up to twice that of the existing-housing programs. The estimated subsidy per homeowner under current programs was around \$1,900 on average in 1987.

SUMMARY TABLE 2. COMMITMENTS AND OUTLAYS BY MAJOR FEDERAL HOUSING ASSISTANCE PROGRAMS, 1987

Program	Households Assisted End of Fiscal Year 1987 (Thousands)	Commitments Outstanding Through Fiscal Year 1988 (Thousands) ^a	Total Outlays During Fiscal Year 1987 (Millions of dollars)
Rental Assistance Programs			
Section 8			
Existing-Housing			
Vouchers	82	184	81
Certificates	874	895	b
Loan management, property disposition, and conversions	414	438	3,819 ^b
Moderate rehabilitation	<u>76</u>	<u>126</u>	<u>244</u>
Subtotal, Existing-Housing	1,446	1,643	4,144
New Construction and Substantial Rehabilitation	794	868	3,981
Public Housing	1,390	1,433	3,517 ^c
Other HUD Programs ^d	552	551	686
Section 515 Rural Rental Assistance	<u>349</u>	<u>394</u>	<u>853^e</u>
Total ^f	4,296	4,653	13,180

SOURCE: Congressional Budget Office based on data provided by the Department of Housing and Urban Development and the Farmers Home Administration.

- a. Includes commitments being processed, as well as commitments that will be funded from the 1988 appropriation. Excludes commitments expected to be lost because funds are deobligated or because landlords or homeowners drop out of the programs in 1988.

- b. Section 8 certificates are included in loan management, property disposition, and conversions.

(Continued)

Distribution of Housing Aid

Housing programs serve various types of households at different rates. Among programs that provide rental assistance, new construction programs have heavily benefited the elderly, while existing-housing programs have served a higher proportion of families with children. Homeownership programs have predominantly helped nonelderly families.

SUMMARY TABLE 2. Continued

Program	Households Assisted End of Fiscal Year 1987 (Thousands)	Commitments Outstanding Through Fiscal Year 1988 (Thousands) ^a	Total Outlays During Fiscal Year 1987 (Millions of dollars)
Homeownership Assistance Programs			
Section 235 Mortgage- Interest Subsidies	159	144	182
Section 502 Rural Housing Loans ^g	<u>899</u>	<u>876</u>	<u>1,900</u>
Total ^h	1,059	1,020	2,082

- c. Includes outlays for operating subsidies, for the up-front capital costs of new construction and modernization activities undertaken during 1987, and for debt service of construction and modernization activities undertaken before 1974.
- d. Includes currently inactive Section 236 and rent supplement programs.
- e. Total outlays include household subsidies provided under the FmHA's rental assistance payments program and mortgage-interest subsidies provided to the developers.
- f. The total does not equal the sum of the number of households assisted under the various programs; rather, it has been adjusted to avoid double-counting households receiving more than one subsidy. These households include 189,000 households assisted through Section 236 as well as either rent supplement or Section 8, and about 46,000 households assisted through both Section 515 and Section 8.
- g. Includes 141,000 assisted households whose loans were sold to private investors in 1987. Total outlays do not include the loss of \$1 billion associated with these asset sales, however.
- h. Although at the end of 1987 over 26,000 commitments for new homebuyers were still being processed, an estimated 66,000 households are expected to leave the programs in 1988. Thus, the total number of outstanding commitments is declining.

Because of these differences in program participation rates and the mix of currently available subsidies, housing aid is unevenly distributed. In the aggregate, if the 4.7 million rental assistance commitments available from past appropriations were received exclusively by the primary target group--that is, the 12.2 million renters estimated to have very low incomes in 1988--up to 38 percent of them could be served eventually (see Summary Table 3). The roughly 2 million outstanding commitments available to the elderly can serve an estimated 51 percent to 57 percent of all very-low-income elderly renters, how-

SUMMARY TABLE 3. ESTIMATED DISTRIBUTION OF THE ELIGIBLE POPULATION AND THE RENTAL ASSISTANCE AVAILABLE FOR VARIOUS GROUPS OF HOUSEHOLDS, 1988

Type of Household	Very-Low-Income Renters (Thousands) ^a	Assisted Units Available to Group (Thousands) ^b	Percentage Served By	
			All Commitments Available to Group	90 Percent of Commitments Available to Group ^c
Elderly, No Children	3,500	1,990	57	51
Nonelderly, No Children	3,500	660	19	17
Households with 1 or 2 Children	3,600	1,380	38	35
Households with 3 or More Children	1,600	620	38	34
Total	12,200	4,650	38	34

SOURCE: Congressional Budget Office estimates based on information provided by the Department of Housing and Urban Development and the Farmers Home Administration.

NOTE: Income category and household types are defined in notes to Summary Table 1.

- a. Estimates of the total number of very-low-income renters are based on the 1985 American Housing Survey, adjusted for growth in the number of households between 1985 and 1988, assuming the number of very-low- and low-income renters grew at the same rate as the number of households in general. Excludes renters that pay no cash rent.
- b. Includes units still being processed at the end of fiscal year 1988.
- c. Since 1981, housing assistance has been targeted almost exclusively toward very-low-income households. A small but unknown proportion of assisted units, however, are still occupied by low-income renters. These figures assume that 90 percent of commitments are received by very-low-income renters, with 10 percent going to low-income renters.